



FISCAL PROFILES, 2002



CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

APRIL 2003

COMMISSION REPORT 03-8

Summary

This report contains and analyzes statistical information about the financing of California post-secondary education from the 1965-66 fiscal year through 2002-03. In addition, there is information on California public elementary and secondary education financing as well as State government in general. The Commission compiles, disseminates and analyzes this information to provide policy makers with comprehensive and comparable financial data that can be used in comparative analysis of higher education finance issues. This document also provides an efficient and accurate response to the many questions that the Commission receives each year. This report, the twelfth in the series, retains the formatting and structure of prior years.

Among major highlights, the report shows that the 2002-03 State Budget:

- ♦ Total State General Fund spending in California is almost \$77 billion in 2002-03. Total State government-authorized spending (State Spending Plan) is estimated to increase by \$9 billion in the current year, or 4.2 percent.
- ♦ State General Funds plus Local Property Tax revenues for state's three public higher education systems decreases by more than \$100 million below last year (1 percent).
- ♦ With the State facing a \$26 - \$34 billion budget deficit the Governor and Legislature have made \$7 billion in mid-year spending cuts to the 2002-03 budget. For higher education, State General Fund and local funds reductions for totaled approximately \$435 million. Increases in State University and University of California student fees are preliminarily estimated to generate more than \$110 million to partially offset this shortfall.

The report documents that the 2002-03 budget for the State of California represents the first fully "recession-era" budget in nine years. This budget, both as adopted and as later amended, seeks to make substantial reductions in the levels of government spending. Not only does it force spending below what would occur with normal program expansion, it also cuts spending to lower levels than would fund anticipated caseload growth in service populations.

The report notes that California's ongoing economic recession could have a severe impact on governmental programs and services at all levels, with many State-funded programs in a situation where expectations for increased caseloads is in conflict with limited public resources.

The report concludes that California's higher education systems face many challenges over the next several years, chief among them being increasing enrollment pressures. The Postsecondary Education Commission recently updated its 1999 enrollment projections and now estimates that nearly 442,000 new students will enroll in the community colleges, State University, and University of California between 2002 and 2010.

This report was transmitted to the Commission prior to its release. Additional copies may be obtained on the Internet from the Commission's website. Please visit the Commission's homepage -- www.cpec.ca.gov -- for further information. Questions about the substance of the report may be directed to Kevin Woolfork of the Commission at (916) 322-8007 (voice) or by electronic mail at kwoolfork@cpec.ca.gov.

Introduction

FISCAL PROFILES 2002 is the twelfth in a series of annual reports by the California Postsecondary Education Commission of statistical information on the financing of the State's public higher education institutions. It also includes selected financial and enrollment information on public elementary and secondary education, and on California's independent higher education institutions.

Executive summary

The 2002-03 budget for the State of California represents the first fully "recession-era" budget in nine years. This budget, both as adopted and as later amended, seeks to make substantial reductions in the levels of government spending. Not only does it force spending below what would occur with anticipated program expansion, it also cuts spending to lower levels than would fund anticipated caseload growth in service populations. At \$76.6 billion in 2002-03, the State General Fund budget is now 4.3% lower than it was in 2000-01.

With regard to available resources, the State budget assumes more than \$2.5 billion in loans and fund balance transfers, along with assumptions of billions in new revenues to be generated from increased user fees and State taxes. However, most of the fee and tax proposals have yet to be settled upon or adopted. Attributable mostly to assumed increases in Federal funds and Property Tax revenues, the entire State spending plan is estimated at \$223 billion in 2002-03, an increase of \$9 billion (4.2%) over 2001-02.

For California higher education, the 2002-03 State budget, as signed in September, included nearly \$12 billion in combined State General Funds and local property tax revenues. The budget provided the public systems with nearly \$300 million in funding for projected enrollment growth and contained no increase in resident undergraduate student fees at California Community Colleges, the California State University, and the University of California. The budget also fully funded anticipated growth in the Cal Grant student financial aid "Entitlement" program.

As is noted above, the Governor and Legislature have made substantial mid-year reductions to the current budget and these cuts have impacted higher education. State General Fund and local funds reductions for higher education totaled around \$435 million. Increases in State University and University of California student fees are estimated to generate more than \$110 million to partially offset the shortfall. The full scale and impact of these funding reductions won't be known for some time.

Next, some highlights from this report are summarized:

- ♦ K-14 Proposition 98 spending will be an estimated \$44.2 billion in State and local funds in 2002-03, an increase of \$1 billion, (2.4%) above the prior year;
- ♦ State spending under the State Appropriations Limit (SAL) is estimated to be less than \$45 billion in 2002-03, which is \$15 billion below the spending limit;
- ♦ Average appropriations per full-time-equivalent student (FTE) for instructional-related activities (I-R) for the community colleges, State University, and University of California show little growth through 2001-02. Since 1997-98, increases in community college I-R funding has lagged noticeably behind the other two systems;
- ♦ Student generated revenues from all mandatory tuition and fee charges at the three combined public postsecondary systems will be almost \$1.9 billion in 2002-03. As context, this amount is only \$100 million lower than the entire sum of local property tax revenues allocated to the California Community Colleges this year;
- ♦ “Constant-dollar” 2002-03 calculations of resident undergraduate total student fees show that these fee levels have risen 185% at the State University and 134% at the University since 1965-66. Over the 18 years of systemwide student fees in the community colleges, these fee levels have grown 65%;
- ♦ In total, more than \$1.5 billion in State capital outlay funding for construction and building renovation projects is provided to the three public systems in 2002-03. \$380 million of this is from the “Higher Education Capital Outlay Bond Fund of 2002, the November 2002 voter-approved initiative;
- ♦ For 2002-03, a total more than 205,000 Cal Grant awards are going to Californians enrolled in the States public and independent postsecondary institutions;
- ♦ The community colleges, the State University, and the University, as a whole, will enroll an estimated 86,760 new headcount students in the 2002-03 academic year;
- ♦ Combined State and local funding for public K-12 education is more than \$47 billion in 2002-03, a one-year increase of \$912 million (2%). These State and local expenditures average out to approximately \$7,397 per funded student in 2002-03;
- ♦ Of per-capita (per California resident) appropriations of State General Funds in five “combined” State expenditure categories, K-12 Education has the largest dollar amount (\$872) and the largest share (40.1%), followed by Health and Human Services (\$613; 28.2%), then Higher Education (\$276; 12.7%), Other Government Functions (\$261; 12%), and Corrections (\$149; 6.9%);

- ♦ Overall State and local funding per California resident decreases by 0.8% in 2002-03. K-12 State and Local combined caseload (per ADA) funding decreases 0.5%, and Higher Education funding per FTE student decreases by 5%;
- ♦ California had the highest level of per-capita expenditures for higher education (\$531) of the seven most populous states in 2000, followed by: Texas (\$470), Ohio (\$447), Pennsylvania (\$416), Illinois (\$407), New York (\$321), and Florida (\$317);
- ♦ The “Megastates” (Peirce, 1972) – here including those states that have appropriated least \$1 billion to higher education in each of the last five years – stands at 17 states in 2002-03. California is by far the largest with State funding of \$9.6 billion.

While this report focuses of necessity on the current-year, 2002-03 State budget, ongoing deliberations on the upcoming 2003-04 budget greatly impacts current year funding. The prospects for higher education in 2003-04 include additional budget reductions, further increases in student fee levels, and great challenges to the systems to improve their operating efficiencies. The systems face increasing pressures in areas such as enrollment growth, staff and faculty recruitment and retention, aging physical facilities, and other unfunded mandatory operating costs, such as employee salaries and benefits.

The State’s economic recession could have a severe impact on governmental programs and services at all levels. Many other State-funded programs are in similar situations, with expectations for increased caseloads in conflict with limited resources. The fiscal situation for local governmental entities is just as challenged. Cities, counties, and special districts are generally among the first to be impacted by economic downturns on both the revenue (decreased tax receipts) and expenditures (increased demand for social services) sides. While many government programs utilize non-State General funds, such as federal monies and user fees, the State General Fund is the largest source of government revenues from which appropriations are made to most State programs.

California’s higher education systems face many challenges over the next several years, as listed above, but chief among them are ever-increasing enrollment pressures. The Postsecondary Education Commission recently updated its 1999 enrollment projections and now estimates that nearly 442,000 additional students will enroll in the community colleges, State University, and University of California between 2002 and 2010.

Higher Education also faces increased competition from “Corrections,” “K-12 Education,” and “Health and Human Services,” for the limited State General Fund dollars that will be committed to caseload-driven programs. Trend data on General Fund expenditures show that higher education is unlikely to see a significant increase in its share of this revenue source. Thus, system and institutional administrators and State policy-

makers will increasingly face pressures to turn to alternative funding sources – such as increased student fees – to provide the revenues needed to operate a world-class system of colleges and universities that Californians have come to expect.

Background On Saturday, August 31, 2002, the State Legislature passed AB 425 (Oropeza), the main budget bill for the State of California for the current 2002-03 fiscal year, along with related legislation. The Governor signed the budget on Thursday, September 5, 2002, making this year the latest – 65 days after the constitutional deadline – that the State budget has ever been enacted. State policymakers were faced with very difficult budget decisions this year, grappling with a budget deficit estimated to be \$24 billion at the time of the budget’s passage. In addition to spending reductions, the 2002-03 budget spends funds anticipated by California as part of the State’s tobacco tax settlement, relies on loans and internal fund shifts, and depends on the deferral of some funds due to education into the next fiscal year to close this deficit.

After much consideration, the Legislature and Governor enacted a State budget that spends less in State General funds in the current (2002-03) fiscal year than in the past (2001-02) year. Actual year-to-year reductions in overall General Fund spending had occurred during the recession of the 1990s, but the current decline is only the third such in the last half-century. State General Fund expenditures for State Operations and Local Assistance – as reflected in this report – were initially estimated to grow only fractionally between 2001-02 and 2002-03. However, the Governor and Legislature deliberated additional spending reductions through late March 2003 that lowered the totals reflected in these displays.

With the California economy continuing its 18-month slowdown, the final, September 2002 California budget for 2002-03 reflected substantial reductions from spending levels initially proposed in January 2002 for virtually every budgetary category. The one major exception to this scaling back is funding shown in the category “General Government,” which (as has been documented in this report in past years) tends to show great fluctuation between initial, and generally higher, estimates of expenditures for the budget year and final expenditures determined after that year’s accounting is closed out.

General Fund expenditure levels for higher education were budgeted in September to increase by \$102 million in 2002-03, an increase of just over one percent above the prior year. K-12 public secondary and elementary education General Funds were budgeted to increase by \$1.2 billion (4%) to total \$31.8 billion. For K-12 education, the budget – as adopted – estimated an increase in combined funding from all sources of \$851 billion (2%). Total K-12 Proposition 98 spending in 2002-03 was projected to be \$39.2 billion, \$933 million (2.1%) above 2001-02 levels. Including the California Community Colleges and other Prop 98 agen-

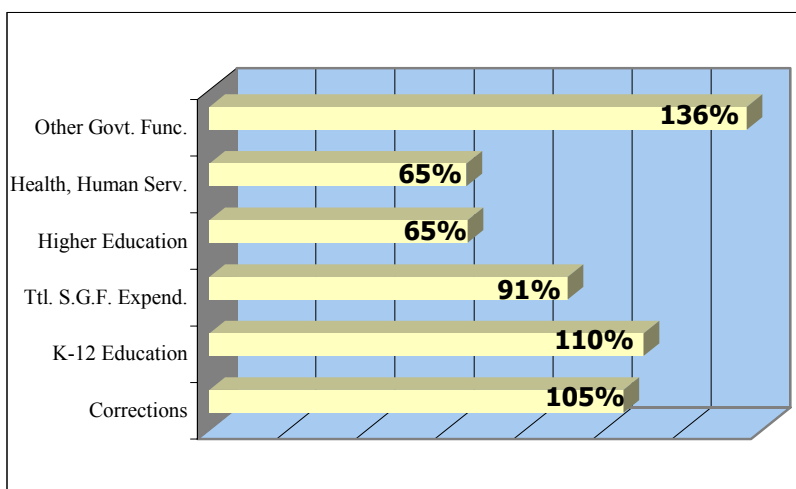
cies, total Proposition 98 spending in 2002-03 was estimated to be \$44.3 billion, an increase of \$1 billion, (2.4%) above 2001-02 levels.

For California higher education, the 2002-03 State budget, as signed in September, included nearly \$12 billion in combined State General Funds and local property tax revenues. The budget provided the public systems with nearly \$300 million in funding for projected enrollment growth (including basis skills course in the community colleges). For the eighth year in a row the budget contained no increase in resident undergraduate student fees at California Community Colleges, the California State University, and the University of California, however, the budget did not “backfill” the State University and University of California for new revenues anticipated to be collected by increases in these fees. The budget also fully funded anticipated growth in the Cal Grant student financial aid “Entitlement” program.

Next, the report examines the information shown in the displays. First, it is important to reiterate the current state of flux of the 2002-03. In December, the Governor proposed more than \$10 billion in spending reductions, fund shifts, and borrowing to generate an additional saving for both the current 2002-03 and upcoming 2003-04 fiscal years. The State Legislature deliberated these proposals through March but, at the time of this publication, many final decisions upon items affecting the 2002-03 budget are still pending.

On general trends in State finances overall, the chart on this page shows the cumulative percent change, by major expenditure category, of State General Fund expenditures over the past twelve years (data from 1990-91

Percent Change in State General Fund Expenditures This Past, Dozen Years from Fiscal Year 1990-91 through 2002-03 (est.)



through 2002-03). For this chart, the five smaller budget categories - “Legislative, Executive, Judicial,” “State and Consumer Services,” “Business, Transportation, Housing,” “Resources,” and “General Government Services” - are combined and shown under the heading “Other Government Functions.” This change moderates some of the substantial fluctuations in funding levels for these individual categories over time.

As the chart shows, General Fund spending for Higher Education has increased 65%, while spending for K-12 education has grown by more than 110% over the past dozen years. The category “Corrections” has experi-

enced 105% growth during this time and. General Fund spending for “Health and Human Services” has increased just 65% since 1990-01. Recent year reductions in State and local health and human services programs are expected to continue into the future lowering the overall gain in this category even more in future years. Total State General Fund spending has risen by 91% over the past twelve years.

Spending for Other Government Functions has increased 136% over the past ten years. However, most of the change in this category is due to large one-time initiatives, such as the cost of recent-year tax reduction initiatives that are accounted for in this category. Not including the “Other Govt.” category, “K-12 Education” is the highest-growing expenditure category over the twelve-year period shown here. This is the fourth straight year that K-12’s percent change over time has been the largest of the five expenditure categories.

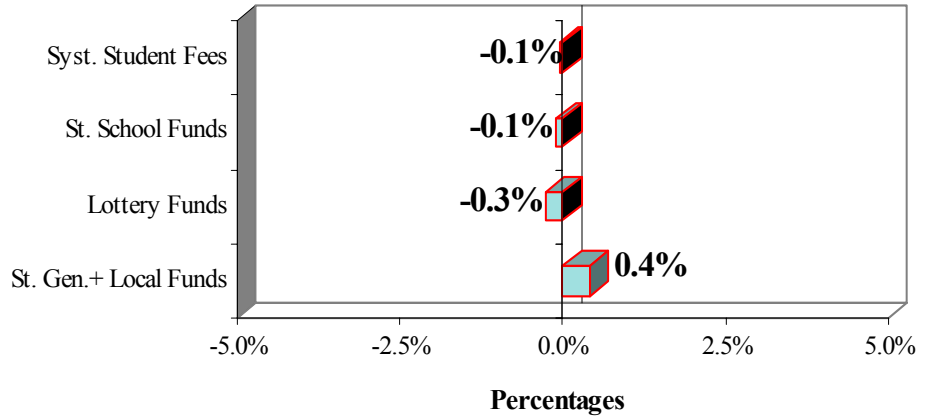
The chart on page seven shows as percentage points changes in the proportion, or share, of total public funds represented by each of four “State-determined funds” – defined as funds over which either the State or the education systems themselves have policy control - from 1986-87 to 2002-03 for each public system.

For the California Community Colleges, the proportions represented by these fund sources have changed very little since 1986-87. The community colleges’ largest change over the sixteen years is a four-tenths of one percent increase in resident State General plus Local Property Tax revenues as a proportion of total State-determined funds. In past years, this measurement has shown a decline in share for combined State General and Local funds of as much as four percent. For 2002-03, combined State General and Local funds continues to account for nearly 94% of the community college’s total State-determined funds (see Display 69).

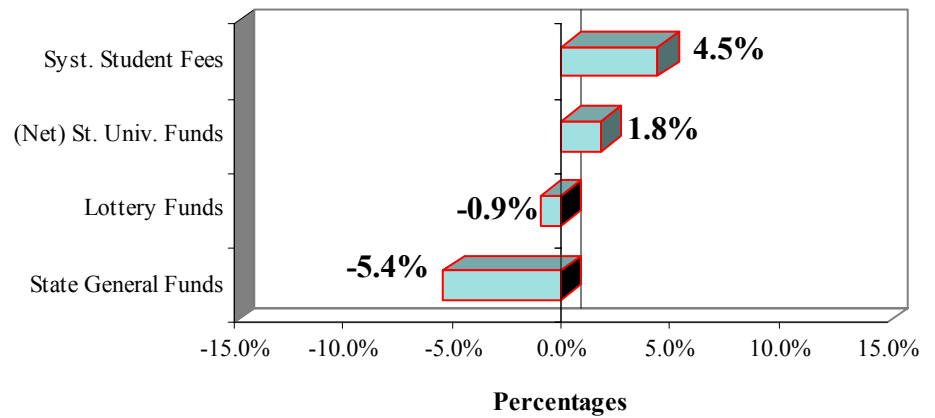
At the California State University, State General Funds as a proportion of the system’s total State-determined fund appropriations has declined by 5.5% since 1986-87. As a proportion of overall State-determined funds, General Funds now represent less than 78%, continuing its downward trend from 83% in 1986-87. “Net” State University Revenues (that is, State University Revenues minus Systemwide Student Fee revenues, which are displayed separately here) are up almost 2 percentage points from 1986-87 levels. Currently these funds comprise 6% of total State-Determined funds, up from four percent 13 years ago. Revenues from resident Systemwide Student Fees represent 4.6% more of State-determined funds in 2002-03 than in 1986-87. As a share, these student fee revenues are 15.4% of this total, up from the 11% of 1986-87. California State Lottery funding has dropped as a share of total funds by one percentage point since 1986-87 and is now just 1.1% of total State-Determined funds (see Display 69).

Changes in the Proportions of Total "State Determined Funds," by Fund Source, for the Three Public Segments of California Postsecondary Education, for Fiscal Years 1986-87 and 2002-03

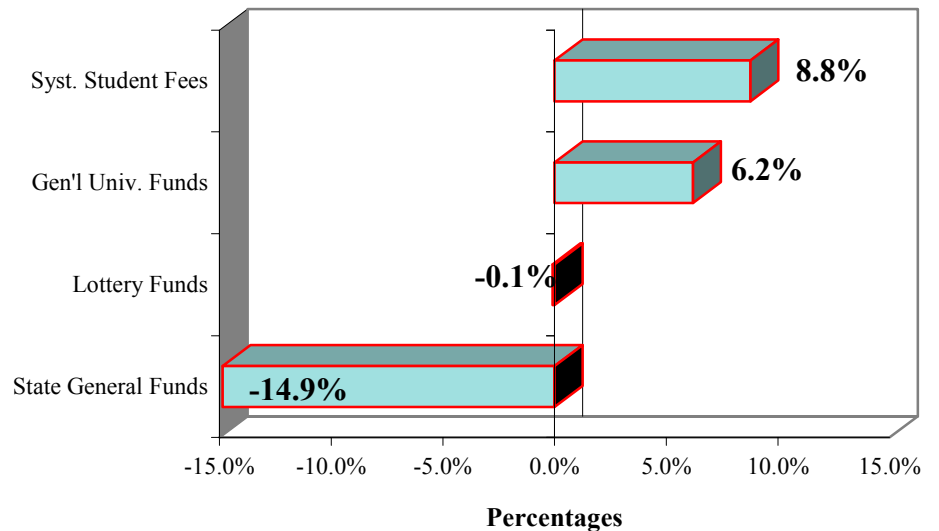
***California
Community
Colleges***



***California
State
University***



***University of
California***



At the University of California, State General Funds have dropped by 15 percentage points as a proportion of total State-Determined funds since 1986-87. General University funds (nonresident tuition and miscellaneous student and institutional revenues), as a proportion of the total, have increased by 6.2%; these funds now represent 11% of total State-Determined funds. Systemwide Student Fee revenues' share of State-Determined funds has grown from 8.4 percentage points since 1986-87 to 17.2% of the total. This particular increase in share is the largest measured for any "State-Determined fund" source for any of the three systems in the 17 years of this measurement. The proportion of the total represented by Lottery funds at the University remains steady at one half of one percent (see Display 69).

As the Governor and Legislature address current and future budget deficits estimated to range from \$24 to \$36 billion – on a budget base of \$90 – \$100 billion – the "boom" years of dramatic, multi-billion dollar annual unanticipated revenue growth in the late 1990s and year 2000 seem a distant memory. With an economic downturn now stretching from months into years, Californians face the likelihood of lower and/or more expensive levels of government services through at least the year 2004. Yesterday's policy discussions centered around which programs to expand and what tax reductions to enact, while today's entail debates over how many persons can be cut from government services' rolls and how public-sector revenues can be increased.

State policy makers face extremely wrenching decisions on how to ration public services to 35 million Californians while maintaining a "Golden State" and current government structures. Unfortunately, many State government and local governmental processes of revenue generation and expenditure commitments do not help in dealing with the budget dilemma. As this and many other reports have chronicled over the years, there is a disconnect between the manner in which the State generates tax revenues to provide public services versus the levels and costs of those services it chooses to provide. While this imbalance does not appear to negatively impact the State during high revenue years, its long-term effect is to undermine the stability of government services at all levels.

Higher Education is one of the public services more vulnerable to reductions in times of economic downturns and the accompanying loss of tax revenues. Very little of the \$10 billion of State General Funds allocated to higher education is protected in statute. The necessities of providing other needed government services puts great pressure on the State to increase student charges, reduce program service levels, and take other steps that have the effect of limiting access to California higher education. The State faces the challenges of continuing to provide educational opportunities to the two and a half million persons currently enrolled in its colleges and universities, provide space for the hundreds of thousand of prospective students who will enroll over the next few years, and improve the efficiency and effectiveness of the education enterprise to meet

these two objectives. Decisions made this year on the State budget in general and on the higher education budget in specific will impact Californians for the remainder of the decade.

**Organization
of the report**

Fiscal Profiles 2002 has 99 tabular displays organized under 16 major categories of information. Appendix A contains five pages of multi-year summaries of much of the data from these displays. For most displays, the information presented for the immediate past fiscal year (2001-02) and for the current fiscal year (2002-03) are estimates representing the most up-to-date information presently available on these varied aspects of California State government finance. This information has been compiled from, and verified by, a variety of sources. However, with the current 2002-03 fiscal year budget undergoing substantial change from what was adopted this past September, many of the most recent years data will undergo revisions in future versions of this report.

*State General Fund
Appropriations*

Displays 1 through 3 describe overall State General Fund appropriations, shares of total spending, and annual percentage changes in nine programmatic areas the State uses to categorize its yearly-spending plan for this fund source through 2002-03. Over the past few years, some agencies formerly contained within categories – such as the California EPA and the Trade and Commerce Agency – have themselves been reclassified as stand-alone program categories. For consistency and for purposes of this analysis, they continue to be shown within their former program categories in this report.

Among the trends portrayed for 2002-03 in these displays is stabilization in the percentage of total General Fund expenditures represented by higher education (Display 2). At 12.7%, the current year's higher education share of General Funds is a full point higher than two years ago in 2000-01 and is the second highest share since 1991-92. Still, this share is far below the average 16% of General Fund share higher education enjoyed from the late 1960s through 1990. As has been noted in earlier reports, higher education's resource base has diversified beyond the State General Fund over time to include much greater reliance on revenue sources such as student charges and local taxes.

K-12 Education's share of State General Fund expenditures increases nearly a full percentage point from last year to 40.1% in 2002-03. This is only the sixth time in the past 36 years that K-12's share of General Funds has exceeded 40%. As is the case with Higher Education and other areas of the budget, proposed mid-year 2002-03 and budget year 2003-04 funding reductions may significantly alter this picture.

A more subtle change in General Fund share is evidenced in some of the smaller expenditure categories. "Business, Housing, Transportation," "Resources," and "State and Consumer Services" all show significant one-year declines in General Funds, averaging a drop of 43% between them. However, many of the programs funded within these categories

have access to federal funds, user fees, inter-fund borrowing, and other special funds. As is the case with student fees in “Higher Education,” decreases in proportions of State General Funds in these expenditure categories could also be the result of gradual shifts in policies and practices resulting in program clients and other payers assuming a greater share of the funding responsibility for these services.

The relatively small expenditure category “General Government Services” has experienced both explosive growth and dramatic contraction in General Fund spending in recent years. From 1999-2000 to 2001-02, the general government category’s General Fund budget first nearly doubled, then was halved. This development highlights one of the challenges of this analysis: the impact of costly short-term activities (such as accounting for tax reductions or anticipated borrowing) and the use of this category as a catch-all for anticipated budgetary savings or expenditures generated within other program areas in any one category.

In summary, if the volatile “General Government Services” category is excluded, the expenditure category with the highest growth in State General Funds over the past 36 years (Appendix A) continues to be “Corrections.”

Displays 4 and 5 show State personnel years (filled positions) and State employee salary cost estimates for the five major budget expenditure categories, along with individual proportions of personnel years (PYs) and accompanying salary costs since the 1967-68 fiscal year. Higher education accounts for more than 36% of total PYs and 35% of accompanying salary costs. From 1973-74 through 1985-86, the category “Higher Education” regularly accounted for 41% of PYs and salary costs, the highest share during that time. The positions and salaries shown for K-12 Education do not include the local districts and, thus, this category has maintained a very small share (around 1%) of total State personnel over time.

The combined “Other Govt. Functions” category accounts for just over one-third of both total positions and total salary costs of those positions. There has been very little change in this category since 1967-68, even though its mix of programs and activities has varied greatly over time. The category “Corrections” has seen the largest increase in proportion of both total PYs and salary costs since 1967-68. “Corrections” PYs have increased from 6%, to a high of more than 17% in 1997-98, to 16.4% of total PYs in 2002-03. “Corrections” salary costs have grown from representing 6.3% of the total in 1967-68, to a high of 18.2% in 1998-99, to 17.2% in the current year. “Health and Human Services” has, for the past thirteen years, represented less than 15% of State positions. In the first thirteen years of this measurement, “Health and Human Services” accounted for an average of more than 18% of State personnel years.

Over the last 35 years (Appendix A), the program category “Corrections” has experienced the second smallest growth in the numbers of State positions (43%), yet has seen those personnel costs grow by nearly 3,300%. This rate of increase in salary costs is nearly three times as high as the nearest category (Higher Education, 1,179%) and the average for State personnel years as a whole (1,134%).

Display 6 presents State General Fund expenditure for State operations and local assistance in the five major budget expenditure categories in actual and “constant” 2002-03 dollars, using the State and Local Government Purchases Index to control for inflation. The first page of Appendix A shows changes over time in these data. It shows that when the effects of inflation are removed by calculating constant dollar amounts, General Fund spending for “Higher Education” has increased just 221% in 35 years. This is only two-thirds the rate of inflation-adjusted growth in spending for the State as a whole (323%) and is lower than any of the other four program categories. Since 1967-68, “K-12 education” inflation-adjusted General Fund spending has grown 309% and “Health and Human Services” 329%

Constant-dollar General Fund expenditures for “Other Government Functions” have grown 411% over this time. The rate of growth over time in this category has slowed steadily in recent years, as General Fund reductions have occurred in programs included here, particularly within the “Business, Housing, Transportation” and “Resources” categories as was noted earlier. The expenditure category with, by far, the largest inflation-adjusted spending increase over time is “Corrections,” with a General Fund spending increase of 632% since 1967-68. “Corrections” spending has grown at a rate nearly three times that of Higher Education over the past 35 years.

Examinations of spending increases of this relative magnitude usually yield some short-term activity or other data aberration as their cause. However, “Corrections” spending has increased steadily since 1967-68 and evidences a more conscious, consistent build up. In the 36 years of this measurement, year-to-year “Corrections” spending has declined in only three, and the largest of those declines is only 3.7%. This is far less than the largest one-year drop in funding recorded for every other expenditure category except “Health and Human Services,” an expenditure category that has seen only about half the growth in its General Fund spending over the past 36 years as “Corrections.”

*Total State
spending plan*

Display 7 shows the three different types of revenue sources that comprise State General Fund revenues. Prior and current budget year revisions of these sources have created significant changes in what was reported just last year. In January 2002, it was estimated that for the 2001-02 fiscal year, “Major” taxes (mostly income and sales-based taxes) would account for 97% of General Fund revenues. The January 2003 revised estimate for 2001-02 shows these tax revenues accounting for less

than 87%. This is by far the smallest proportion of General Fund revenues represented by “Major” taxes in the 37 years of this measurement, with the second lowest being the 89.4% estimated for the current year. These are the only two of the 37 years shown for which “Major” tax revenues account for less than at least 91% of overall General Fund revenues.

At the opposite end, “Minor” taxes (regulatory fees and proceeds from governmental transactions) are estimated to nearly triple their share of total General Fund revenues, going from 2.6% in 2001-02 to an estimated 7.4% for 2002-03. The category “Loans and Transfers,” which consists of accounting transactions involving various governmental funds, represents the remaining 3% of General Fund revenues. For 2001-02, it was initially estimated that these inter-fund loans and transfers would account for less than 2% of General Fund sources, however they ended up accounting for nearly 11% of General Fund sources. There have been multi-billion dollar swings in “estimated vs. actual” tax and fee receipts and inter-fund transactions over the last 4 years and this volatility is reflected in this display. Over the last ten years (Appendix A), the amount of General Fund revenues reflected by “Major” taxes has increased 77%, revenues from “Minor” taxes have increased 362%, and revenues from these loans and transfers have increased by 273%. Overall, General Fund revenues, by source, have increased 88% since the recession year of 1992-93.

Displays 8, 9 and 10 detail the “Total State Spending Plan” since 1965-66. This plan accounts for nearly all State appropriations of State and non-State funds in five funding categories used by the State. While the State General Fund is the largest and most well known component of State government spending, it represents less than 34% of the nearly \$224 billion in total State government-authorized spending in California for 2002-03. Total State spending is estimated to increase by \$9 billion (4.2%) this year but unlike prior years, most of the five funding categories are anticipated to experience one-year declines in revenues. State General Funds, State Special Funds and, “Nongovernmental Cost” funds all are projected to have lower revenues in 2002-03 than in 2001-02. The conditions of fund sources tend to reflect, generally, the performance of the State’s economy and so the weakness expected here is consistent with other measures. Revenues from Local Property Tax are projected to increase by nearly 10% but the largest jump in California government funding is expected to come from the Federal Government. Federal Funds to the State for 2002-03 are projected to grow by \$8 billion (17%) over the prior year’s level.

Even with the current severe downturn in the State’s economy, and its impact upon government revenues, it is important to keep in perspective the rate of growth of these revenue sources during the past dozen years. At the beginning of the State’s last recession in fiscal year 1990-91, the

Total State Spending Plan reflected \$104 billion in government spending; this year's \$224 billion is more than double that amount.

Display 9 shows that after the General Fund's 34%, the largest funding source for the State in 2002-03 is projected to be the Federal government at more than 24%, followed by Nongovernmental Cost funds at 20%. "Nongovernmental Cost Funds" are monies derived from sources other than general or special taxes, licenses, and fees; they include sources such as working capital revolving funds, bond funds, and retirement funds. State "Special" Funds (restricted-purpose revenues from taxes, licenses and fees) are anticipated to generate less than 9% of total State spending in 2002-03.

Local Property Tax revenues are projected to account for only 13% of the total State appropriations in 2002-03, its third lowest proportion of total State spending in 38 years. The past five years have seen a retreat from the gradual 20-year trend of local tax revenues recovering some of the ground lost with the 1978 tax-cutting initiative Proposition 13. These local revenues had slowly grown from the first post-Prop 13 year's (1978-79) 13.8% to a high of 15.7% in 1990-91 to 14.4% in 1996-97. Since 1996-97, these funds have decreased as a percentage of total State spending but, for the most part, this appears due to the rapid growth of State General Funds over that time. In an historical context, local property tax revenues averaged 34% of total State spending for the thirteen pre-Proposition 13 years shown here but have averaged only 14.5% in the twenty-five post-Prop 13 years.

The pre and post-Prop 13 proportions for the State General Fund evidence the same trend in reverse, as General Funds were used after Prop 13 to pay for government functions formerly funded through local revenues. This trend is not as pronounced for General Fund spending because of the large size of this fund source. In the thirteen pre-Proposition 13 years, General Funds averaged just over 31% of total State spending, however, for the twenty-five post-Prop 13 years, General Funds have represented an average of more than 39% of total spending.

Changes in the proportions of Total State Spending Plan represented by these five funding categories is even more evident in Display 10, which shows these funds in both actual and 2002-03 "constant" dollars. The first page of Appendix A shows these calculations over a thirty-seven year period. The range of percent changes in "constant" dollars are: a high of 645% for Nongovernmental Cost Funds, 419% for Federal Funds, 372% for the State General Fund, 315% for the Total State Spending Plan, and 193% for Special Funds. However, for Local Property Tax revenues when the effects of inflation are removed, this category's constant-dollar growth since 1965-66 is only 43%.

Display 11 describes Proposition 98 funding for public K-12 education and the California Community Colleges and Display 12 shows the "State

Appropriations Limit” (SAL). The Proposition 98 data shown in this display is more informational than explanatory, given the complex nature of this spending plan and the annual negotiations and policy decisions surrounding it. For the 2002-03 fiscal year, it is estimated that \$44.2 billion in State and local funds will be allocated to public school and community college education under the Proposition 98 funding guarantee, an increase of \$1 billion, (2.4%) above the prior year. The California Community College’s 2002-03 share of Proposition 98 revenues is estimated to maintain last year’s share of 10.2%, which is within one-tenth of one percent of its average share of Prop 98 revenues over the past eight years. The highest share of Prop 98 revenues the Community Colleges have ever received was 11.8% in 1990-91. Of note, current year and proposed budget year (2003-04) funding decisions could lower the Community Colleges’ share of Proposition 98 revenues to its lowest point in history.

The information in Display 12 shows the State Appropriations Limit (SAL), which is calculated each year as a requirement of the 1979 voter-approved initiative Proposition 9 in 1979. The SAL is calculated based on changes in California Per-Capita Income, State population growth and K-12 student enrollment, all of which had been accelerating in recent years. Only a combination of tax relief measures and adjustments in the accounting of SAL-related expenditures in the budget kept the State below the calculation of its SAL in 2001-02. At that time the State was at 96% of the limit, the first time since the mid-1980s the State had approached the limit. Subsequent changes in 2001-02 spending left the State \$17 billion below the appropriations limit for that year. For 2002-03, the State is anticipated to again be well below the appropriations limit. The recession’s impact on tax revenues, coupled with population and student enrollment growth, leave the State an estimated \$15 billion under the spending limit. Thus, qualified State expenditures will account for only three-quarters of the State appropriations limit in 2003-03.

*Funding per unit of
full-time-equivalent
student enrollment*

Displays 13 through 15 show total funding from various sources per full-time-equivalent student enrollment for the California Community Colleges, the California State University, and the University of California through 2002-03. The three displays are informational in nature for comparisons of changes in per-student funding from selected sources within individual systems and not between them. Each display represents funding levels related to the distinct educational missions of the individual systems and, for that reason, is not intersegmentally comparable.

As shown in Display 13, combined State General Funds and systemwide student fee revenues per full-time equivalent student are expected to decline by 8.1 from 2001-02 to 2002-03 at the University of California. Coupled with last year’s drop, these averages of funds per student have fallen \$2,397, or nearly 11%, in the past two years. This two-year change is an even greater \$2,521 (13.5%) when only State General Funds are examined. The California State University shows both one and two year declines in combined State and student funding per FTES of less than 2%,

or between \$193 and \$117 per student respectively in Display 14. The same holds true for estimates of one and two year changes in State General Funds per FTES, with a two-year decline in per-student funding of \$123 (1.5%). For 2002-03, Display 15 shows that average funding per FTES from combined State, student and local fund sources declines by 5.5% in the California Community Colleges. This is the second straight year of decline and for the two-year period of 2000-01 through 2002-03, these “combined” revenues per FTE are estimated to decline 9.5%, or \$426 per student. The two-year drop is slightly lower (\$268, 6.2%) when only State General plus Local funds for the community colleges are viewed.

Displays 16 through 18 contain information on average appropriations per full-time-equivalent student for instructional-related activities (I-R) in the public systems and expenditures per FTE for instructional-related activities in selected California independent institutions provided by the Association of Independent California Colleges and Universities (AICCU). This comparison is presented for the State’s three public postsecondary systems through the 2001-02 fiscal year. It also includes expenditures per FTE for instructional-related activities in AICCU institutions through fiscal year 2000-01. The public-sector information is an annual update based upon the 1993 Commission report, Expenditures for University Instruction (CPEC 93-2) and the information for the independent sector was provided by the AICCU. The methodology for determining instruction-related revenues was developed by the Commission and the three public higher education systems, in consultation with the Department of Finance, the Legislative Analyst’s Office, and other State officials in 1993 (see “Notes and Sources”).

The information is shown by major State and institutional fund sources, labeled here “State-determined funds,” and as totals for each system. In addition to actual dollar amounts, 2001-02 “constant” dollars are shown here, calculated using the Higher Education Price Index to mitigate the effects of inflation over time. Excluded here for the public postsecondary systems are all federal and private fund sources.

For the most recent year, these data show that total average I-R funding per student for the California Community Colleges (CCC) declines by 4.4% between 2000-01 and 2001-02. This is both the largest and only the second year-to-year decline in per-student I-R funding in the 22 years of this measurement. State General plus Local funds make up the bulk of “State-determined funds,” for the community colleges, and these I-R per FTE funds show a one-year decline of 4.3%. For the California State University (CSU), average total I-R funding per student increased 3.2% for 2001-02. State General Funds per FTES at the State University increased 3.5% between 2000-01 and 2001-02. At the University of California (UC) average total I-R funding per student grew by 1.1% for 2001-02. UC’s I-R State General Funds per student declined by 0.1% between 2000-01 and 2001-02.

When measured in 2001-02 “constant” dollars, two of the three public systems show year-to-year declines in per student funding for instruction-related activities, with the third showing no growth. Total constant dollar I-R funding per student drops 7.3 in the community colleges, has no change from last year for the State University, and declines 2% at the University of California.

Actual-dollar I-R expenditures per student for the AICCU institutions show an increase of 4.2% between 1999-2000 and 2000-01. In constant dollars, I-R expenditures per student in the independent sector increased by 1% over this time. Information on the second page of Appendix A shows longer-term changes for this display. Since 1998-99, the display shows total average I-R funding per student has increased at all three public systems, in a range of 8 – 11%. However, in constant 2001-02 dollars, these total funds have declined 4% in the community colleges, remained the same in the State University, and declined 2% at the University of California. In fact, when the effects of inflation are removed, total per student I-R funding over the past 21 years has declined for two of three systems – 3% in the community colleges and 2% in the State University – and has risen only 1% at the University of California.

The flat-to-declining one-year trends in “actual” dollar instruction-related per student funding at the three public systems are driven at least in part by significant increases in enrollments over the last two years. Funded (FTES) enrollments at the three public systems between 2000-01 and 2001-02 increased 6.7% at the community colleges, 4.8% at the State University, and 8.2% at the University of California. For the community colleges, this represented the largest one-year increase in funded enrollment in 25 years. For the State University, this was the largest such increase in 30 years and for the University of California this was the largest such increase in 33 years. When these expansive increases in enrollments are coupled with the relatively modest funding increases that ended up being provided for 2001-02, reduced per-student funding results, as is shown in Displays 16 through 18.

*Appropriations
of funds for
California higher
education*

Displays 19 through 28 show total funding for the State’s three public higher education systems, along with the annual percent changes in total funding for each system. These data are presented individually for each system, by revenue source, and in terms of the proportion of total funding represented by each fund source. Display 19 shows that State General and Local funding combined for all three public higher education systems approaches \$10.5 billion dollars in 2002-03, a slight decrease from last year. Reversing a trend of recent years, the share of total operating revenues represented by systemwide student-fee revenues is anticipated to climb by one-tenth of one percent at each of the three public systems. This change is due to mid-year 2002-03 increases in resident student fee levels adopted by the State University and the University of California in December 2002. For the community colleges, this increase in share results partly from the combination of a minor increase in estimated fee

revenues (\$5 million), coupled with a major decrease in State General Fund revenues (\$85 million).

As noted, the Governor and Legislature are now considering significant current-year program reductions to address the State's budget deficit and policymakers are envisioning substantial increases in student fee levels at the public systems for the upcoming 2003-04 academic year. Thus, the share of total 2002-03 segmental operating funds represented by resident systemwide student fees will likely show an even greater increase once the final accounting is done for this fiscal year and into future years.

For the University of California, the information in Display 21 shows that for the current year the University will have total operating revenues of \$16.8 billion, but nearly three-quarters of these funds are for special or restricted use and are not available for general operating purposes. At \$3.1 billion, State General Funds at the University of California are expected to be lower in 2002-03 than at any time this decade. The 2002-03 General Funds totals shown reflect the \$74.3 million mid-year funding reductions to the system. University of California systemwide student fee revenues are expected to increase by \$48 million (7%) over last year's totals. Display 23 shows the University's fund sources for organized research (excluding Department of Energy labs); the federal government provides more than half of this funding.

In Displays 24 and 25 for the California State University, State General Fund revenues are anticipated to increase by only a fraction of one percent over last year's level. These 2002-03 General Funds totals include the \$59.6 million mid-year funding reductions to the system. The one-year increase in these revenues (\$25 million) is only slightly larger than the increase projected in systemwide student fee revenues (\$21 million), even though General Funds represent five times more funding for the State University than do systemwide student fee revenues. State General Funds comprise nearly 53% of the State University's operating funds, more than a percentage point less than in the prior two years. State University "Other Funds" (mostly auxiliary and self-supporting operations) is the system's second largest operating fund source at less than 30%.

Overall operations funding for the California Community Colleges (Displays 26 and 27) was projected to increase by 1.4% in 2002-03, with a 3% decline in State General Funds offset by a 7% increase in Local Property Tax revenues and a 3% increase in systemwide student fee revenues. However, the Legislature and Governor are now discussing major current and budget year revisions to the community colleges' funding. At nearly \$2 billion, revenues from property taxes for the community colleges are higher now than at any time in the past 38 years, however, the system's State General Funds are currently anticipated to be lower in 2002-03 than at any time this decade. Systemwide student fee revenues at the community colleges are estimated to be \$168 million in 2002-03, the largest total

for this fund source since 1994-95 and the third biggest total ever for student fee revenues.

*Categories
of expenditures
for the systems*

Displays 29 through 33 show expenditures of general-purpose funds for ongoing operations in each of the three public systems by the various expenditure categories used by each system. General-purpose funds consist almost exclusively of the State General Fund, local revenues, and systemwide student-fee revenues, along with system-specific funds used for regular ongoing operations. In addition, these displays include calculations of the proportion of total expenditures represented by each category of expenditure for each system. When viewing these data, please note that some of these expenditure categories (such as public service and student service) are also funded using restricted-purpose and other revenue sources that are not accounted for in these displays.

For 2002-03, the California Community College system is estimated to spend more than 89% of its general-purpose funds on enrollment-driven apportionments to the colleges (Display 33). With recent information on 2002-03, and updates for 2001-02 and 2000-01, the trend of the past few years has been increases in apportionment's share of community colleges operations funding. At 89%, it is higher than at any time since 1994-95. In the late 1980s and again in the mid-1990s there was a substantial increase in both the amount and proportions of funding dedicated to "Special Service and Operation." This category had represented an average of just over 2% of operations funding at the community college from 1965-66 through 1986-87, however, since that time this function has seen its share reach a high of nearly 13% of the total and has averaged just under 11% of community colleges operations funding.

Updated information in Display 32 shows that the California State University will spend 45% of its general-purpose funds on "Instruction," the highest share for instruction since a change in program classifications in the system in the mid-1990s. 2002-03 spending on "Student Services" is expected to decline, both in terms of dollars (\$15 million) and share (1 percentage point), while general-purpose funding for "Academic Support" will grow slightly (less than \$10 million on a base of \$458 million) although its share of total spending declines two-tenths of one percentage point. The State University expenditure category "Institutional Support" accounts for nearly 27% of general-purpose funding. This category includes spending on the system's many administrative functions and the operation and maintenance of the physical plant.

The data in Display 30 show that the University of California will spend an estimated 53% of its general-purpose funds in the category "Instruction and Research," which includes general campus classroom and laboratory instruction and joint student-faculty scholarly research activities. As has been the case for each of the past 11 years, except for the \$7.2 million in 1993-94, there is no general-purpose funding anticipated for the category "Student Services" in 2002-03. Student services functions account for nearly \$400 million annually in the University and in-

account for nearly \$400 million annually in the University and include counseling and career guidance, social and cultural activities, supplementary educational services, and student administrative services such as admissions and records and the administration of financial aid. While the past dozen years have seen this category almost exclusively funded through “restricted purpose” monies, this category received an average of \$12 million per year in general-purpose funding from 1966-67 to 1991-92, with a high of \$30 million in 1991-92.

For the California Community Colleges, the State University, and the University of California, funding reductions currently being deliberated for 2002-03 and 2003-04 will impact these proportions. The larger funding categories, such as instruction, apportionments and institutional support, are likely to bear the brunt of any budget cutting.

*Student tuition
and fee charges
and revenues*

Displays 34 through 39 contain a variety of information on resident student fees and non-resident student tuition at the State’s three public systems, and the revenues generated by these charges. For 2002-03 the budget includes an increase in systemwide resident undergraduate student fees at the California State University and the University of California, the first such increase since 1994-95. The State University increased its resident fees \$72 per semester (\$48 per quarter) and the University of California increased its resident fees \$135 per quarter, effective for the Winter 2003 term. Even with these increases, revenues generated from resident student fees at the State University and University of California are expected to increase by only 5.5% and 6.8%, respectively over the prior year. This is less than the 11.2% and 10.3% respective increases in resident student fee revenue at those systems that occurred between 2000-01 and 2001-02.

Including revenues from tuition charged to non-resident students, the total revenues generated by mandatory student charges for the combined three public systems is expected to be almost \$1.9 billion in 2002-03. As perspective on the magnitude of these student-generated revenues, local property tax revenues for the California Community Colleges in 2002-03 are estimated to be only \$100 million higher than this amount. The table at the top of the third page of Appendix A shows changes in student fee revenues since 1965-66 (1984-85 for the community colleges) adjusted to remove the effects of inflation. The information shows that non-inflation revenues (not fee levels) generated from “total” resident student fees have risen 688% at the State University, 794% at the University of California, and 28% at the community colleges over this time.

Displays 36 – 39 show undergraduate resident student fees and nonresident tuition from 1965-66 through the current year. The displays show both systemwide fees and “total” fees, which includes averages of mandatory campus-based fees at the State University and University of California. The 2002-03 increases in resident student fees are the first in eight years. Fiscal year 2002-03 “constant-dollar” amounts of student fee lev-

els are shown in Displays 39 and summarized in Appendix A. These data show that when the effects of inflation are removed, resident undergraduate “total” student fee levels have risen 185% at the State University and 134% at the University over the past 34 years. Over the 18 years of systemwide student fees in the community colleges, these fee levels have grown by 65% in constant dollars. It is important to add that both the State University and University of California have proposed significant (20 – 25%) increases in their respective systemwide student fees for the 2003-04 academic year and that the Governor has proposed to more than double systemwide student fee levels in the California Community Colleges in the proposed 2003-04 State Budget.

Displays 40 through 43 show funding for the State’s Cal Grant A, B, C, and T student financial aid programs for public, independent and proprietary postsecondary students administered through the California Student Aid Commission (CSAC). For 2002-03, the report adds Display 41a, a new table that provides separate information on new competitive and entitlement Cal Grant A and B awards, along with totals that include renewal awards, for fiscal years 2001-02 and 2002-03. This display better reflects the changes to the Cal Grant system adopted in SB 1644 (Chapter 403, Statutes of 2000). Display 40 shows yearly summaries, by program, of new and total (including renewals) Cal Grant awards, and viewed as a whole. While the Cal Grant program make-up a relatively small portion of overall student financial aid in California, its impact is significant. In total, for 2002-03 there are more than 205,000 active Cal Grant awards going to California students.

As Display 42 shows, there were no changes made in the maximum level of Cal Grant awards for 2002-03. Display 43 shows numbers of outstanding student loans and total student loan dollars guaranteed by CSAC, in three groupings of educational sectors. Both the numbers of student loans and the total dollar amounts of those loans increased between 2000-01 and 2001-02 for all three sectors. While in-state public, independent and proprietary schools saw increases of 9 – 11%, the numbers of loans and dollar values of CSAC-guaranteed loans for persons attending out-of-state and out-of-country institutions grew by 52%. With these changes, the non-state sector now represents nearly the same percentage of the total (38%) as does the in-state independent and proprietary sector (40%). In total for 2001-02, CSAC now guarantees nearly three-quarters of a million student loans worth more than \$3.2 billion.

*Capital outlay
funds*

Displays 44 through 49 show capital outlay (construction and building renovation projects) funding for California’s three public higher education systems, including both State and non-State fund sources. Due to the volatility and project specificity of the funding source “Other, Non-State,” it is excluded here from the calculations of annual percent changes in total capital outlay expenditures. The 2002-03 budget contains more than \$1.5 billion in State capital outlay funding for the three public sys-

tems, \$565 million of this from General Obligation bonds. Much of the bond funding comes from remaining balances of 1996 and 1998 General Obligation Bond initiatives approved by the voters and \$380 million is from the “Higher Education Capital Outlay Bond Fund of 2002, a voter-approved initiative from this past November.

Another \$880 million in building funds is provided through the Public Buildings Construction Fund, which acts as a bond issuance authority for the State. Excluding “Other, Non State” sources over the past dozen years, voter-approved general obligation bonds and lease-revenue bonds have provided nearly all of the funding for California’s public higher education systems’ building programs. In recent years, the State General Fund has also been tapped to pay for construction on the campuses. In 2002-03, more than \$41 million in the State General Fund money is built into the systems’ capital construction budgets, nearly all of this for the University of California.

*Independent
institutions in
California and the
Nation*

Displays 50 through 60 show information for California’s independent colleges and universities belonging to the Association of Independent California Colleges and Universities (AICCU). Displays 50 and 51 show information on student financial aid for all independent institutions through 2002-03. Display 50 shows that a total of 27,290 students attending independent institutions received a Cal Grant award in 2002-03. State funding for these awards totaled \$256 million for 2002-03. Display 51 shows that in 2001-02 the percentage of tuition at independent institutions covered by the maximum “Cal Grant A” award dropped to 48.5%, the lowest in five years. The data also show that the proportion of Cal Grant A winners attending independent institutions grew to 30.8% in 2001-02, the highest percentage since 1986-87.

Displays 52 through 57 deal with current fund revenues, enrollments and educational and general (E&G) expenditures in AICCU institutions through fiscal year 2000-01. According to Display 52, total current fund revenues for independent institutions decreased dramatically in fiscal year 2000-01. The \$5.2 billion decline – a drop of 40% in current fund revenues – was due almost entirely to losses in investment return, which went from \$4.6 billion on the plus side in 1999-2000 to a loss of \$943 million in 2000-01. When coupled with a 4.7% (8,125 FTE) increase in enrollments, the revenue per FTE student declined by \$32,337 (42.2%) in 2000-01. Each FTE student generated \$43,919 in revenue in 2000-01.

Display 54 shows information on headcount and FTE enrollment and weighted average tuition levels for independent institutions. As of 2000-01, there were more than 217,000 students enrolled at AICCU institutions, an increase of 2.7% over the prior year. The weighted average tuition at AICCU institutions for 2000-2001 was \$19,197, a 6.5% increase over 1999-2000. While the average tuition level per student was \$19,197, actual tuition revenue per FTE student was \$18,164. Actual student-generated revenues covered 81% of instruction-related expenditures per

FTE student in 2000-2001 (see display 18 for further information). Displays 55 through 57 show education and general (E&G) expenditures, average expenditures per FTE student, and instruction-related expenditures. Total E&G expenditures at the AICCU institutions grew to \$5.7 billion in fiscal year 2000-01, a one-year increase of \$457 million or 8.7%. For fiscal year 2000-01 average E&G expenditures per funded student increased by \$1,167 or 3.9%.

Displays 58 through 60 show state funding and enrollment information for independent institutions for selected states. This information is gathered through the State-National Information Network (SNIN) of the National Association of Independent College & University State Executives (NAICUSE). Display 58 shows that, for the 19 states which data were available for 2001-02, only two – New York and Pennsylvania – allocated more State funds to independent colleges and universities than did California. As noted in the text below, this outcome has much to do with the fact that these states enroll more independent college students than does California.

Display 60 shows that through 2001-02, California continues to have one of the nation's largest populations of students attending independent colleges and universities. There were 220,540 students attending California independent institutions in fall 2001. According to fall 2001 SNIN data, New York enrolls the nation's largest number of students in the independent sector (426,254), followed by Pennsylvania (247,873), and Massachusetts (230,137). Including California, these are the only four states in the nation that presently enroll more than 200,000 students in their respective independent sectors.

Appendix A shows that changes in FTE enrollment over the last seven years (Fall 1994 to Fall 2001) for California and other selected states with large independent sector enrollments. New Jersey (13%), Minnesota (11%), and Texas (11%) have the largest year-to-year increases in funded student enrollment; California's growth here is 2%. Over the last three years, Connecticut (16%), Ohio (15%), and Texas (13%) have the greatest enrollment increases. California's independent postsecondary sector has seen funded student enrollment grow by 22% in the seven years since 1994. Connecticut also experienced 22% growth in its enrollments over this time period. Other states' with large increases in independent sector enrollment over that time include: Ohio (19%), North Carolina (16%), and Tennessee (15%). Only Pennsylvania (-12%) of the states with more than 200,000 student independent sectors has seen a decline in enrollments over this time. The other two 200,000-plus independent student enrollment states, New York (12%) and Massachusetts (13%), have both experienced increases since 1994. Two states with very large independent sectors in recent years – Illinois and Florida (both with headcount enrollments over 100,000 student in Fall 2000) – are excluded from this measurement due to a lack of past year data.

*Enrollments in
California Public
Postsecondary
Education*

Displays 61 through 64 show headcount and FTE (funded) enrollment for the California Community Colleges, the California State University, and the University of California. Funded enrollment information in Displays 61 and 62 anticipate an increase of 33,000 FTE students in the community colleges, 15,278 FTES for the State University, and 9,938 FTES for the University for 2002-03. The data show that for the three systems as a whole, an estimated 86,760 additional headcount students will enroll in the 2002-03 academic year above the level enrolled in 2001-02. Displays 63 and 64 show breakdowns of FTES enrollment, first in the University of California, then in the California State University and Community Colleges. The University's enrollment information in Display 63 is presented by student level and shows dramatic growth in annual FTES for each of the last two years. In Display 64, the State University FTE enrollment information is shown by level of students, while the Community Colleges' FTE enrollment information is presented by funding source. Both of these systems also show steady growth in the numbers of FTE student attending institutions in these systems, a trend dating back to the end of the last recession.

All of this information shows that whether measured in terms of actual (headcount) or funded units (FTE), student enrollment in California public postsecondary education has risen significantly over the last 5 years. Since 1997-98, total FTE enrollment in the 3 public systems has grown by a combined 22%, or 295,884 funded students. Of significance, this calculation does not account for the tens of thousands of students who have attended the community colleges, the State University, and the University of California over this time period for which the systems received no enrollment monies. Viewed another way, if only a small portion of the systems "unfunded" students are counted here, the overall growth in public sector FTE enrollment since 1997-98 would be greater than current FTE enrollments in the entire California State University system.

*Price (inflation)
indices, income
growth, and system
financial support*

Displays 65 through 67 show actual index values, annual percent changes, and inflation factors (used for "constant-dollar" conversions) for selected State and national price indices, including the Higher Education Price Index (HEPI), California Personal Income, and Implicit Price Deflators, through 2002-03. Due to a lack of available data, 2002-03 information for the HEPI and other indices in Display 67 are projections. For 2002-03, nearly all of these measurements of public inflation show that the rate of price increases will slow even further than in past years, with a range of 0.5 – 2.2%. Since 1997-98, as shown in Appendix A, most of the inflation indices have experienced very moderate average 2 – 3% annual growth rates. The exception to this trend is California personal income, which has increased 27% over the past 5 years and 59% over the last decade. However, as shown in Display 66, the annual rate of growth in California personal income is expected to slow to only 0.5% in the current year, a far cry from its 10.4% rate of growth at the beginning of this decade.

*Actual and
Constant-Dollar
State-Determined
Funds*

Display 68 compares the annual percent changes in some of the indices with annual changes in State General and Local Funds in the three public higher education systems. Also included are annual budgeted faculty salary adjustments and the Commission's yearly faculty salary parity adjustment calculations for the California State University and the University of California. For 2002-03, the Commission estimates that the State University would need a 7.7% increase and the University of California a 9.1% increase to gain parity with their respective groups of comparison institutions. Salary differences initially projected for the current year are usually adjusted downwards once information on actual salary changes at comparison institutions and at the State University and University of California are factored into the salary parity calculations in the following year.

Display 69 shows comparisons of fund sources labeled here "State-determined funds" for the State's three public higher education systems. These are fund sources (primarily State and local funds and student charges) over which the State and/or the education systems exercise policy-making or allocation authority. For the State University and University of California, State General Funds represent the vast majority of State-determined funds, 77.8 and 71.4% respectively. State General plus Local revenues account for 93.7% of the California Community Colleges' State-determined funds. The community colleges do not have an equivalent fund source to the State University and University of California's institutionally-generated general funds. These data show that since at least the beginning of the State's last major economic recession in the early 1990s (and earlier for the State University), Systemwide Student Fee revenues (SSFs) have, on average, taken on a much bigger share of State-determined funds than at any time in the past.

For the first 17 years of this comparison for the California State University (1965-66 through 1981-82 for student fee revenues), SSFs never exceeded 10% of total State-determined funds and averaged only 8.5%. However, in the 21 years since the beginning of the recession of the early 1980s, SSFs have exceeded 10% each year and have averaged almost 15.4% each year of total State-determined funds. For the University of California, over the first 24 years of this comparison (1967-68 through 1987-88 for student fee revenues), SSFs only twice exceeded 10% of total State-determined funds and averaged less than 8.5%. However over the last 12 years, since the beginning of the last major recession, SSFs have continuously exceeded 10% and have averaged more than 18% each year of total State-determined funds.

The proportion of total State-determined funds represented by student fee revenues at the California Community Colleges has always been small, relative to the state's baccalaureate degree-granting systems but it too has increased. In the earliest dozen years (1965-66 through 1976-77) for which student fee information is available for the community colleges, student fee revenues average just over 1% of total State-determined

funds. These data are averages of local fees, as no statewide fee existed at that time. In the most recent 19 years, those for which there has been a State Enrollment Fee in the community colleges, the average share of total State-determined funds represented by student fee revenues has been 4%.

Displays 70 through 75 show appropriations of these fund sources for current operations in current (actual) dollars and 2002-03 “constant” dollars, as total appropriations per Full-Time Equivalent (FTE) student. These data are those used for the percentages shown in Display 69. For the University of California, the proportions of total State-Determined Funds (SDFs), by category, have changed very little over the last 10 years. Only General University Funds has changed its share by more than tenths of a percent, representing 10.9% of the total in 2002-03, compared with 9.2% in 1992-93. Interestingly, for the California State University, the proportion of total SDFs represented by the State General Fund has declined since 1992-93, representing 72.5% then and 77.8 now. Similarly for the California Community Colleges, State General plus Local funds represents 93.7% in the current year, as compared with 92.3 in 1992-93.

Multi-year summary information on these data is contained in Appendix A. The 2002-03 information for all three systems shows a continuance of the trend of decreases in per-student funding, when the impact of inflation is removed. Over the past 35 years, the changes in constant-dollar total State-Determined Funds per funded-student have been very modest: an actual 2% decline in the community colleges, a 14% increase in the State University, and a 13% increase for the University of California. Over the shorter term, these constant dollars per student have declined for all three systems. Since 1997-98 these per-student funds have declined 8% decline in the community colleges, 3% in the State University, and 2% for the University of California.

*Hastings College of
the Law and public
school support*

Display 76 shows the State General Fund and total funds (including student fee revenues) for Hastings College of the Law and the school’s FTE student enrollment. One section of this display still being compiled will show levels of Hastings student resident and non-resident student charges for the past 38 years. While Hastings College’s State General Funds are anticipated to grow by \$748,000, its total funds are expected to drop by 3.3% to \$37.5 million. Over the last ten years, Hastings College total funds have increased by 71%, with most of this increase due to growth in Hasting Funds, which are student fee revenues. Since 1992-93, while the College’s total funds have increased nearly 71%, its State General funds have grown less than 20%, its Lottery funds (a very small funding source) have increased 41%, and Extramural funds (mostly for self-supporting functions) have increased more than 73%. Over this same ten-year period, Hastings Funds have increased 174%.

Displays 77 through 79 show funding and funded enrollment information for California public elementary and secondary education (K-12). Total

funding for public K-12 education in 2002-03 is estimated to be \$526 billion (including federal and other funds), less than 2% higher than the adjusted totals for last year. Combined State and local funding for public K-12 education is more than \$47 billion this year, \$912 million (2%) higher than the revised 2001-02 totals. By this measurement, State and local expenditures average out to approximately \$7,397 per funded student in 2002-03, less than half of one percent higher than last year.

Enrollment in the public school system is measured in units of “average daily attendance” (ADA), and the system’s funding is primarily based upon levels of ADA. California public K-12 school ADA, which includes adult and alternative schools, is expected to total 6.4 million ADA in 2002-03, an increase of 1.5%. Nearly two-thirds of this ADA enrollment consists of elementary (Kindergarten through 8th Grade) students, while high school students represent just over 27%. The remaining 7% of funded enrollment are adult education students and county and other specialized programs.

*Per-capita spending
in California public
Education*

Displays 80 through 83 show “per-capita” appropriations of revenue sources for current operations for the public K-12 education and each of California’s public higher education systems. Per-capita calculations divide a given data series by a defined population grouping; in this measurement, funding levels are divided by the population of the State of California. These displays for K-12 education and the three public postsecondary education systems, show changes in per-capita funding over the years and contrasts per-capita funding in each education system from only State funds (including Lottery revenues) with changes in combined per-capita funding that includes local funds for K-12 and student fee revenues for the postsecondary systems. Each of the higher education systems show year-to-year declines in per-capita funding for 2002-03 when viewed in either State or combined funds. K-12 per-capita State funding similarly declines but combined State and local K-12 per-capita funding increases fractionally over 2001-02.

Display 84 shows average per-capita “combined” fund spending for the State’s four public education systems from the four prior displays individually and as a K - University total for each of the past 38 years. Using these data, Display 84 calculates 2002-03 average per-capita appropriations for the California’s four public education systems in combination at \$1,695. Of this total, 79.1% is represented by K-12, 8.2% by the community colleges, 5.5% by the State University, and 7.2% by the University of California. These shares of combined per-capita have changed very little over the nearly four decades of this measurement, although K-12 education represented a slightly higher proportion of the total (82%) in the last half of the 1960s. Community College’s share of this total has gyrated the most over the years, going from a low of 5.6% in 1966-67 to a high of 11.9% in 1977-78 to an average of 8.3% for the past sixteen years.

Display 85 shows per-capita appropriations of State General Funds in five “combined” State expenditure categories (as shown in Display 6) for years 1967-68 through the present. These data are also shown proportionally, as their respective “shares,” of the total of per-capita State General Fund expenditures. Again here, K-12 Education has the largest dollar amount (\$872) and the largest share (40.1%). Second, is Health and Human Services (\$613; 28.2%), then Higher Education (\$276; 12.7%), Other Government Functions (\$261; 12%), and Corrections (\$149; 6.9%).

Year-to-year per-capita appropriations declined in all five expenditure categories, except K-12 Education. In total, the State is expected to spend \$2,171 dollars per resident in 2002-03 on these five areas of government. This represents a decline of \$30 (1.4%) from 2001-02 total for per-capita appropriations in the five expenditure categories.

Display 86 calculates actual California “Per-capita” personal income since 1965-66 using information and methodology from the United States Bureau of Labor Statistics. The information in this display differs from the “California Personal Income” shown in Display 66 in that per-capita personal income shown here is the average income for each person living in the State (please see “Definitions”), while the earlier display measures overall changes in income not divided by population. Using revised November 2002 U.S. Bureau of Labor Statistics information provided by the California Department of Finance, it is estimated that California per-capita personal income will decline by 1.3% for 2002-03. With the revisions to this data series, which includes estimates of personal income for the current year, this represents only the second year-to-year drop in California per-capita personal income in the 38 years of this measurement and the largest such decline during that time.

In constant 2002-03 dollars, using the California Consumer Price Index to “deflate” prior year values, per-capita personal income in the current year is anticipated to drop by 2.1%. This is the third straight year of decline in the constant dollar version of this measurement of average per-capita personal income in the State. As is summarized in Appendix A, constant 2002-03 dollar California per-capita personal income has risen 49% since 1965-66, while the State’s population has grown 89% during these past 37 years.

*Education funding
and enrollments in
comparison to state
funding and population
growth*

Display 87 shows changes in the averages of State and combined fund appropriations, per person, for Californians served in the two education areas in terms of State finances and total finances. The population information used in these calculations is shown in Display 88. First, the combination of the State General Fund, Local Tax Revenues, and Non-governmental Cost Funds (see Display 8) are divided by the State’s population, similar to the calculation for the State’s “per-capita” spending. Then, for public higher education, the systems’ combined State, local, and student fee revenues are divided by headcount enrollment to provide

caseload average appropriations. Finally, K-12 combined (State and local) funding is divided by K-12 headcount enrollment.

In terms of annual change for 2002-03, overall State funding per California resident decreases by 0.8%, K-12 State and Local combined caseload funding decreases 0.5%, and Higher Education funding per student decreases by nearly 5%. As is shown on the last page in Appendix A, these measurements continue to show that relative to increases in its service population State funding for higher education has experienced by far the lowest overall growth in public-fund “dollars per caseload” of the three categories. Higher Education’s 37-year growth rate in per-student funding of 414% is less than half of the growth rate (1,031%) for per student combined State and Local funds for K-12 education and only one-third of rate of growth (1,236%) in overall State funding per resident.

When the effects of inflation are removed from this measurement using the California Consumer Price Index the distinctions become even more clear, as shown by the information for Display 87 on the last page in Appendix A. In constant 2002-03 dollars, average overall State spending per resident has increased 25% over the most recent five years and 128% over the 37 years of this measurement. Combined, constant-dollar State and Local funding for K-12 education, per headcount student has risen 10% over the most recent five years and 93% over the last 37 years. There has been no increase in these combined fund sources’ constant-dollars per-student over the last five years for California higher education, and for the 37 years this rate of change is actually a decline of 12%.

Displays 88 and 89 show California’s population and headcount enrollment in the State’s public K-12 education system and in its three public higher education systems. Headcount enrollments in the California Community Colleges has increased the most of those shown here since 1965-66 (277%), followed by the California State University (173%), the University of California (146%), and K-12 headcount enrollment (48%). Over the most recent five years, the rates of growth for California’s four systems of public education are in a much closer range. Since 1997-98, State University enrollments have grown 22%, which is higher than in the community colleges (20%), the University of California (18%), or K-12 enrollments (13%). In total, combined public higher education enrollments have grown 239% since 1965-66, a much higher rate than K-12 enrollment, the State’s overall population, or combined K-12/public higher education enrollments (74%).

Display 90 shows comparisons of overall State General Fund appropriations (SGFs) and State populations with changes in public higher education systems’ State and Local funds and combined headcount enrollments. For the most recent year, overall State General Funds and higher education State plus Local funds are anticipated to decline 1.7 and 1.0% respectively. Information for Display 90 in Appendix A shows that for the most recent 5 years, actual-dollar overall State General Fund appro-

priations (from Display 8) have increased 43%, while higher education State plus Local funding has increased 39%. However, as the length of time covered in this measurement increases, the gap between the two funding areas widens. Since 1982-83, overall General Fund appropriations have increased 247% to 199% for higher education General plus Local funds. From 1965-66 to the present, overall General Fund appropriations have increased 2,825%, while higher education General plus Local funds have increased 1,835%. In constant 2002-03 dollars, the differences follow a similar pattern, with the 37-year change being 400% for overall General Fund appropriations and 231% for higher education General plus Local funds.

Displays 91 through 98 present information comparing spending on higher education among the 50 states and the District of Columbia. Displays 91 through 94 use information compiled by the Bureau of the Census in its publication "Government Finances," and its succeeding data published only over the Internet. The federal government defines some sources and uses of funds differently than does California and excludes some fund sources for higher education in its calculations that are generally included for California in state-level analyses. As a result some calculations shown here, such as per-capita expenditures in Displays 91 through 94, are not comparable with those in earlier displays in this report. They are included here because these data from the federal government are the best source of information available higher education spending that controls for state variances to produce consistent comparisons across the fifty states. It is important to note that these federal data include expenditures of federal funds for higher education, in addition to state and local fund sources.

Display 91 shows per-capita spending on higher education in the nation's seven most populous states from 1967 through 2000 (using the federal fiscal year) and Display 92 shows the annual percent changes in these expenditures. Two years of new information were available for this year's publication and some data have been revised for previous years, based on adjustments in the source materials. In 2000, California (\$531) had the highest level of per-capita expenditures for higher education of the seven most populous states, as it had in 1999 (\$468). California's average \$531 in per-capita spending on higher education in 2000 is well above that for the other six largest states and more than \$100 per person above the seven-state average (\$416). The remaining six states and rankings are: Texas (\$470), Ohio (\$447), Pennsylvania (\$416), Illinois (\$407), New York (\$321), and Florida (\$317).

As shown in Display 92 and Appendix A, California's per-capita higher education spending jumped more than 30% between 1997-98 and 1999-2000 and has increased 53% between 1994-95 and 1999-2000. Even with these recent-year increases, California's longer-term rate of growth still lags most other states. Over the last 20 years, at 172%, California's rate of growth in this spending is sixth of the seven states and lags both the

seven-state and national average rate of growth over that time. The same statement is true over the past 33 years for California's 827% increase in this national measurement of per-capita higher education spending.

Display 93 expands this comparison to cover the 30 most populous states for the 14-year period 1987-2000. California was in the top 10 of the states measured here for the earliest four of the 10 years shown, then slipped to as low as nineteenth during the last year of the prior economic recession of 1994. Since 1995, California's ranking has hovered between sixteenth and eighteenth and for 2000, California's \$532 in per-capita expenditures higher education ranks seventeenth among the 30 most populous states. California's cumulative fourteen years ranking is now thirteenth among these 30 states, at \$370 per person. California now ranks second highest to Michigan among the 10 most populous states in both the latest year's data and for the cumulative fourteen year ranking.

Michigan (\$689), the nation's eighth most populace state, is second only to Iowa (\$694) in per-capita expenditures for higher education in 2000 among the 30 largest states. This is in striking contrast to the general rule for this measurement that states with largest per-capita expenditures for education – and most other government program areas – tend to have smaller populations. Michigan is the only one of the 10 states with the largest population that also ranks in the top 10 in these per-capita expenditures for higher education and this has been the case during each of the 14 years of this analysis. Iowa, the nation's thirtieth most populace state, has the highest level of per capital spending on higher education both for the most recent year and in the cumulative fourteen year ranking. Iowa has ranked first in this measurement for each of the 14 years shown in this display. For 2000, Colorado (\$584) ranks third behind Iowa and Michigan, Oregon (\$596) is fourth and Indiana (\$595) is fifth. For the cumulative fourteen-year rankings, Wisconsin (\$454) is third behind Iowa (\$511) and Michigan (\$467); Colorado (\$441) is fourth and Oregon (\$434) is fifth in this measurement.

Displays 94 and 95 show appropriations of State funds for higher education (as defined by The Grapevine, the higher education finance database operated by the Center for Higher Education Studies at Illinois State University). These displays show information for the nation's 35 most populous states for the last 21 years with annual (and other intervals) percent changes in these appropriations. For 2002-03, California continues, by far, to have the nation's largest overall higher education appropriations, as it has for the entirety of this data series. Even with the current reductions to California's earlier estimated \$9.6 billion in higher education spending reported here, these appropriation are nearly double those of the next highest states of Texas (\$5.2 billion) and New York (\$3.8 billion).

Higher Education appropriations in 17 of the 35 states shown here declined between 2001-02 and 2002-03. The one-year change for the 50 States as a whole is fractional – only \$1.4 million on a nearly \$64 billion

base. The 20-year percent increases for the five largest states are 201% for California, 156% for New York, 90% for Texas, 222% for Florida, and 176 for Illinois. The state of Georgia (225%) has achieved the largest percentage increase in funds between 1982-83 and 2002-03, followed by Florida, Arizona (217%), Arkansas (216%), and North Carolina (209%). California's 201% 20-year increase in higher education appropriations, as defined here, ranks eighth.

Display 96 presents higher education current fund appropriations and annual percent changes for the past 17 years in those states that have appropriated more than \$1 billion to higher education operations – a group called the “Megastates” by Peirce (1972). For the purposes of this display, megastates are defined here as those states have appropriated at least \$1 billion to higher education in each of the most recent five fiscal years. This entire data series has been updated for prior years and shows different trends for some states than was evident in past publications.

Due to its sheer size, California's appropriations far eclipse those of the next closest state. Thus, this display also includes state funds for the California State University and the University of California (CSU/UC) as the equivalent of a state. Funding for these two systems together (\$5.9 billion), without the addition of the California Community Colleges and other higher education institutions and agencies, would constitute the second largest “State” in terms of state-funded higher education appropriations for every single year shown here. The funding difference between the CSU/UC combination and the state with the next largest level higher education appropriations (Texas and New York have alternated here) is \$642 million for 2002-03. This difference has ranged from a high of more than \$1.2 billion dollars, to a low of only \$57 million.

Display 96 also presents the 18 states by their annual percentage change in appropriations of State funds for higher education. In the most recent year-to-year comparison (2001-02 to 2002-03), higher education funding in California is anticipated to grow by 1.3%, while the combined CSU/UC, as a megastate, is estimated to decline 2.5%. The megastate with the largest anticipated one-year rate of growth in higher education funding for 2002-03 is New York (7%) and the state with the largest percentage decline is Virginia (8%). Overall, 11 states (and nation, as a whole), anticipate year-to-year increases in higher education spending for the current year and 7 states (including CSU/UC) expect declines.

Georgia (160%) tops the list of states in the cumulative percent change in higher education funding over the past 17-year change, followed by Texas (136%), California (134%), North Carolina (127%), and New Jersey (126%). New York and Florida (each at 51%) have experienced the smallest overall rates of growth in this measurement of state fund appropriations for higher education since 1985-86, followed by Alabama (82%) and Wisconsin (88%). Not including the CSU/UC combination, the 17

true megastates \$45.6 billion represents nearly 72% of the \$64 billion in state funds appropriated to higher education in the nation as a whole.

Display 97 compares State General Fund appropriations for current operations of the California State University and the University of California over the past 15 years with those of their respective national public faculty salary comparison institutions. State General Funds for the University of California are expected to decline by 5.3% for the budget year, consistent with the general trend at its public comparison institutions. Only state funding for the University of Illinois, Champaign/Urbana anticipates a larger percentage drop in funding (6.6%). Combined state funding for the University of California and its four public comparison institutions is estimated to decline 4.6% for the current year but the University's funding levels drive this average as it represents nearly three-quarters of the \$4.3 billion total. Over both the five and 15-year periods, State funding for the University of California has grown at a greater rate than for any of the system's comparison institutions and for the group as a whole.

The California State University's estimated 0.9% increase in State General Funds for 2002-03 is close to an average 1% increase in funds for its fifteen public comparison institutions. While only estimates of funding were available for two of these institutions (the State University of New York, Albany and the University of Wisconsin, Milwaukee), there is no one overall trend in one-year funding among these institutions. State spending at the University of Colorado, Denver is expected to grow 7.7%, while State spending at Georgia State University is estimated to drop 5.9%. Since 1997-98, State spending at CSU has increased 52%, the second highest rate of growth of the 17 states; George Mason University's 101 percent increase is the highest.

Finally, Display 98 shows a summary of State General Fund appropriations for ongoing higher education operations in the 50 states over the past 38 years, along with annual and two-year percent changes. Changes in the United States Consumer Price Index (U.S. CPI) and the Higher Education Price Index (HEPI) are also shown here for comparisons. These data show the one-year change in total national higher education spending is the smallest gain or loss recorded over these nearly four decades. The \$1.35 million one-year increase in State-fund higher education appropriations is only two-thousandths of one percent. Over the longer term, increases in this spending have far outpaced growth in the U.S. CPI and the HEPI. State General Fund appropriations for higher education nationally have grown faster than the U.S. CPI and the HEPI for each of the interims measured on Display 98 and have grown three-to-four times faster than these two inflation indices over the 37 years of change shown.

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